



Nongoma Local Municipality
(Registration number KZN265)
Annual Financial Statements
for the year ended June 30, 2019

Nongoma Local Municipality

(Registration number KZN265)

Annual Financial Statements for the year ended June 30, 2019

General Information

Legal form of entity

Low Capacity Municipality (Local Government)
Service Delivery

The following is included in the scope of operation

Service Delivery: Rates, waste management and general services.
Main business operations: Local government activities, planning and promotion of the integrated development plan, land, economic and environmental development.

The mandate of the municipality is in terms of section 152 of the Constitution of South Africa

Mayor

Cllr MA Mncwango

Deputy Mayor

Cllr AN Xulu

Speaker

Cllr BW Zulu

Councillors

Cllr NG Xaba

Cllr RZ Buthelezi

Cllr SA Hlongwane

Cllr AN Ndabandaba

Cllr BJ Ntshangase

Cllr NM Mthembu

Cllr EM Masango

Cllr DP Cebekhulu

Cllr Eshiba

Cllr NP Mbatha

Cllr PS Mhleko

Cllr AM Mncwango

Cllr SC Ndwandwe

Cllr BG Ntombela

Cllr BH Sithole

Cllr S Nxumalo

Cllr SK Hadebe

Cllr NP Mlambo

Cllr SM Mbatha

Cllr LN Mdluli

Cllr NS Magwaza

Cllr ZN Sithole

Cllr MN Mkhwanazi

Cllr MA Mtshali

Cllr ZS Hlongwa

Cllr NB Nhleko

Cllr SC Ngcobo

Cllr TN Mthethwa

Cllr TM Ndwandwe

Cllr LN Buthelezi

Cllr PM Xhakaza

Cllr JT Dlamini

Cllr MD Ndwandwe

Cllr KM Mtshali

Cllr MS Hadebe

Cllr VB Zulu

Cllr JZ Zungu

Nongoma Local Municipality

(Registration number KZN265)

Annual Financial Statements for the year ended June 30, 2019

General Information

	Cllr TJ Nsele Cllr ME Nkosi
Grading of local authority	3
Chief Finance Officer (CFO)	Mr MM Zungu
Accounting Officer	Mr MB Mnguni
Business address	Lot 103 Main Road Nongoma 3950
Postal address	P O Box 84 Nongoma 3950
Telephone	035 831 7500
Facsimile	035 831 3152
Website	www.nongoma.org.za
Auditors	Auditor General of south Africa Registered Auditors
Attorneys	ZW Ngwenya Attorneys Shepstone & Wylie

Nongoma Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

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COID	Compensation for Occupational Injuries and Diseases
UIF	Unemployment Insurance Fund
LED	Local Economic Development
GRAP	Generally Recognised Accounting Practice
FMG	Financial Management Grant
LG SETA	Local Government Sector Education and Training Authority
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SARS	South Africa Revenue Services
PAYE	Pay As You Earn

Nongoma Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

I also certify that salaries, allowances and benefits of Councilors, loans made to Councilors, if any, and payments made to Councilors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the on August 31, 2019 and were signed on its behalf by:

Accounting Officer
Mr MB Mnguni

Nongoma Local Municipality

(Registration number KZN265)

Annual Financial Statements for the year ended June 30, 2019

Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Operating lease asset	5	119,434	-
Receivables from exchange transactions	8&10	7,362,732	1,447,945
Receivables from non-exchange transactions	9&10	35,997,501	25,429,853
VAT Receivables	7	1,489,188	2,757,987
Cash and cash equivalents	11	7,138,899	2,064,111
		52,107,754	31,699,896
Non-Current Assets			
Property, plant and equipment	3	315,151,167	302,810,215
Intangible assets	4	244,708	767,528
		315,395,875	303,577,743
Total Assets		367,503,629	335,277,639
Liabilities			
Current Liabilities			
Finance lease obligation	12	137,865	105,078
Operating lease (Asset)/Liability	5	-	83,076
Payables from exchange transactions	15	41,524,653	21,791,489
Employee benefit obligation	6	111,923	111,923
Unspent conditional grants and receipts	13	448,858	1,006,646
		42,223,299	23,098,212
Non-Current Liabilities			
Finance lease obligation	12	184,106	8,674
Employee benefit obligation	6	3,633,039	3,946,477
Provisions	14	7,295,456	6,996,546
		11,112,601	10,951,697
Total Liabilities		53,335,900	34,049,909
Net Assets		314,167,729	301,227,730
Accumulated surplus		314,167,732	301,227,727

* See Note 37

Nongoma Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods		186,110	310,633
Service charges	16	1,881,275	1,824,174
Rental of facilities and equipment	17	196,423	192,244
Interest received (trading)		3,518,896	3,160,466
Licences and permits	19	926,445	902,031
Interest received - investment	22	1,580,450	1,560,082
Total revenue from exchange transactions		8,289,599	7,949,630
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	22,122,676	20,848,486
Transfer revenue			
Government grants & subsidies	24	173,284,406	177,544,113
Fines, Penalties and Forfeits	18	434,530	393,044
Donation Received		-	4,484,929
Total revenue from non-exchange transactions		195,841,612	203,270,572
Total revenue		204,131,211	211,220,202
Expenditure			
Employee related costs	25	(94,542,892)	(82,404,016)
Remuneration of councillors	26	(13,531,680)	(13,809,156)
Depreciation and amortisation	27	(20,017,957)	(16,901,930)
Impairment loss/ Reversal of impairments	28	-	(4,457,356)
Finance costs	29	(412,509)	(348,200)
Lease rentals on operating lease	21	(6,038,238)	(4,476,536)
Debt Impairment	30	9,239,328	(9,764,452)
Contracted services	31	(35,821,649)	(25,199,928)
Transfers and Subsidies		(124,000)	-
General Expenses	32	(30,834,240)	(33,846,879)
Total expenditure		(192,083,837)	(191,208,453)
Operating surplus		12,047,374	20,011,749
Loss on disposal of assets and liabilities		(24,174)	(8,513,103)
Actuarial gains/losses	6	1,269,277	(522,724)
		1,245,103	(9,035,827)
Surplus for the year		13,292,477	10,975,922

* See Note 37

Nongoma Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	362,476,739	362,476,739
Adjustments		
Prior year adjustments	(72,224,934)	(72,224,934)
Balance at July 1, 2017 as restated*	290,251,805	290,251,805
Changes in net assets		
Surplus for the year	10,975,922	10,975,922
Total changes	10,975,922	10,975,922
Restated* Balance at July 1, 2018	300,875,255	300,875,255
Changes in net assets		
Surplus for the year	13,292,477	13,292,477
Total changes	13,292,477	13,292,477
Balance at June 30, 2019	314,167,732	314,167,732
Note(s)		

* See Note 37

Nongoma Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Property rates		19,652,980	15,708,047
Refuse removal		1,196,523	718,450
Grants		188,245,000	189,958,838
Interest income		1,580,450	1,560,082
Licence and Permits		873,761	872,520
Other cash item		228,254	331,283
		211,776,968	209,149,220
Payments			
Employee costs		(102,390,654)	(96,301,011)
Suppliers		(57,166,814)	(61,445,095)
Other cash item - INEP Projects		(15,791,406)	(14,163,607)
		(175,348,874)	(171,909,713)
Net cash flows from operating activities	33	36,428,094	37,239,507
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(31,561,525)	(38,566,348)
Purchase of other intangible assets	4	-	(126,912)
Net cash flows from investing activities		(31,561,525)	(38,693,260)
Cash flows from financing activities			
Finance lease payments		208,219	(160,386)
Net increase/(decrease) in cash and cash equivalents		5,074,788	(1,614,139)
Cash and cash equivalents at the beginning of the year		2,064,111	3,678,251
Cash and cash equivalents at the end of the year	11	7,138,899	2,064,112

* See Note 37

Nongoma Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Sale of goods	1,273,000	-	1,273,000	186,110	(1,086,890)	
Service charges	2,018,000	-	2,018,000	1,881,275	(136,725)	
Rental of facilities and equipment	246,000	-	246,000	196,423	(49,577)	
Interest received (trading)	1,100,000	1,500,000	2,600,000	3,518,896	918,896	
Licences and permits	888,000	-	888,000	926,445	38,445	
Interest received - investment	1,940,000	-	1,940,000	1,580,450	(359,550)	
Total revenue from exchange transactions	7,465,000	1,500,000	8,965,000	8,289,599	(675,401)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	22,995,000	-	22,995,000	22,122,676	(872,324)	
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Transfer revenue

Government grants & subsidies	142,909,000	(950,000)	141,959,000	173,284,406	31,325,406	
Fines, Penalties and Forfeits	324,000	-	324,000	434,530	110,530	

Total revenue from non-exchange transactions	166,228,000	(950,000)	165,278,000	195,841,612	30,563,612	
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Total revenue	173,693,000	550,000	174,243,000	204,131,211	29,888,211	
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Expenditure

Personnel	(83,215,000)	-	(83,215,000)	(94,542,892)	(11,327,892)	
Remuneration of councillors	(14,822,000)	-	(14,822,000)	(13,531,680)	1,290,320	
Depreciation and amortisation	(4,916,000)	-	(4,916,000)	(20,017,957)	(15,101,957)	
Finance costs	(200,000)	140,000	(60,000)	(385,506)	(325,506)	
Lease rentals on operating lease	-	-	-	(6,038,238)	(6,038,238)	
Debt Impairment	(1,736,000)	-	(1,736,000)	9,239,328	10,975,328	
Contracted Services	(24,051,000)	(5,814,000)	(29,865,000)	(35,821,649)	(5,956,649)	
Transfers and Subsidies	(1,550,000)	-	(1,550,000)	(124,000)	1,426,000	
General Expenses	(34,285,000)	245,000	(34,040,000)	(30,861,243)	3,178,757	
Total expenditure	(164,775,000)	(5,429,000)	(170,204,000)	(192,083,837)	(21,879,837)	

Operating surplus	8,918,000	(4,879,000)	4,039,000	12,047,374	8,008,374	
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Loss on disposal of assets and liabilities	-	-	-	(24,174)	(24,174)	
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Actuarial gains/losses	-	-	-	1,269,277	1,269,277	
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	-	-	-	1,245,103	1,245,103	
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Surplus before taxation	8,918,000	(4,879,000)	4,039,000	13,292,477	9,253,477	
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	8,918,000	(4,879,000)	4,039,000	13,292,477	9,253,477	
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Nongoma Local Municipality

(Registration number KZN265)

Annual Financial Statements for the year ended June 30, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Operating lease asset	-	-	-	119,434	119,434	
Receivables from exchange transactions	-	-	-	7,362,732	7,362,732	
Receivables from non-exchange transactions	27,659,000	-	27,659,000	35,997,501	8,338,501	
VAT Receivables	-	-	-	1,489,188	1,489,188	
Cash and cash equivalents	2,337,000	(345,000)	1,992,000	7,138,899	5,146,899	
	29,996,000	(345,000)	29,651,000	52,107,754	22,456,754	

Non-Current Assets

Property, plant and equipment	334,987,000	-	334,987,000	315,151,167	(19,835,833)	
Intangible assets	376,000	-	376,000	244,708	(131,292)	
	335,363,000	-	335,363,000	315,395,875	(19,967,125)	

Total Assets	365,359,000	(345,000)	365,014,000	367,503,629	2,489,629	
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Liabilities

Current Liabilities

Finance lease obligation	-	-	-	137,865	137,865	
Payables from exchange transactions	17,035,000	-	17,035,000	41,524,653	24,489,653	
Employee benefit obligation	-	-	-	111,923	111,923	
Unspent conditional grants and receipts	-	-	-	448,858	448,858	
	17,035,000	-	17,035,000	42,223,299	25,188,299	

Non-Current Liabilities

Finance lease obligation	-	-	-	184,106	184,106	
Employee benefit obligation	-	-	-	3,633,039	3,633,039	
Provisions	6,543,000	-	6,543,000	7,295,456	752,456	
	6,543,000	-	6,543,000	11,112,601	4,569,601	

Total Liabilities	23,578,000	-	23,578,000	53,335,900	29,757,900	
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Net Assets	341,781,000	(345,000)	341,436,000	314,167,729	(27,268,271)	
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Net Assets

Net Assets Attributable to Owners of Controlling Entity

Reserves

Accumulated surplus	341,781,000	(345,000)	341,436,000	314,167,729	(27,268,271)	
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Nongoma Local Municipality

(Registration number KZN265)

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgements is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When there is evidence that expected future economic benefits from an assets differs from previous assessment, the asset is impaired to its recoverable amount. The recoverable amount is expected to be the higher of fair value less costs to sale and value in use. Estimates are used to calculate value in use and fair value less costs to sale.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Nongoma Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

An impairment loss for debtors is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.4 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	25 - 30 years
Plant and machinery	Straight line	4-5 years
Furniture and fixtures	Straight line	7-10 years
Motor vehicles	Straight line	7 years
Office equipment	Straight line	5 years
IT equipment	Straight line	5 years
Leasehold assets	Straight line	2 years
Infrastructure	Straight line	10-50 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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1.4 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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1.5 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 years

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

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1.6 Financial instruments (continued)

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash Equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT Receivables	Financial asset measured at amortised cost
Consumer Debtors	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Unspent Conditional Grant	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease Obligations	Financial liability measured at amortised cost
Operating lease liability	Financial liability measured at amortised cost
Provision liability	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

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1.6 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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1.8 Impairment of cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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Accounting Policies

1.9 Impairment of non-cash-generating assets (continued)

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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1.9 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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1.10 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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1.11 Provisions and contingencies (continued)

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

1.12 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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1.13 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

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Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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Accounting Policies

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act and has not been condoned in terms of section 170, or
- (b) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act or
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998);
- (d) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.21 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 4/1/2010 to 3/31/2011.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

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Accounting Policies

1.22 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.23 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Standard/ Interpretation:

- IGRAP 19: Liabilities to Pay Levies

Effective date:

Years beginning on or after

April 1, 2019

Expected impact:

Unlikely there will be a material impact

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2019 or later periods:

Standard/ Interpretation:

- GRAP 34: Separate Financial Statements
- GRAP 35: Consolidated Financial Statements
- GRAP 36: Investments in Associates and Joint Ventures
- GRAP 37: Joint Arrangements
- GRAP 38: Disclosure of Interests in Other Entities
- GRAP 110 (as amended 2016): Living and Non-living Resources

Effective date:

Years beginning on or after

April 1, 2020

April 1, 2020

April 1, 2020

April 1, 2020

April 1, 2020

April 1, 2020

Expected impact:

Unlikely there will be a material impact

Unlikely there will be a material impact

Unlikely there will be a material impact

Unlikely there will be a material impact

Unlikely there will be a material impact

Unlikely there will be a material impact

Nongoma Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	5,754,293	-	5,754,293	5,754,293	-	5,754,293
Buildings	24,370,842	(8,308,626)	16,062,216	24,370,842	(7,603,246)	16,767,596
Leased Assets	770,443	(445,870)	324,573	354,673	(273,454)	81,219
Plant and machinery	4,154,223	(2,737,789)	1,416,434	4,605,064	(2,152,868)	2,452,196
Furniture and fixtures	2,844,151	(2,174,100)	670,051	2,818,036	(1,994,726)	823,310
Motor vehicles	10,082,463	(6,153,936)	3,928,527	10,243,702	(4,939,817)	5,303,885
IT equipment	2,104,548	(1,328,238)	776,310	2,059,264	(1,301,470)	757,794
Infrastructure	193,927,514	(32,739,594)	161,187,920	179,807,881	(25,199,887)	154,607,994
Community	149,120,335	(37,111,757)	112,008,578	133,282,042	(31,035,368)	102,246,674
Storm water infrastructure	10,336,064	(1,265,321)	9,070,743	10,336,064	(969,125)	9,366,939
Landfill site asset	7,052,889	(3,101,367)	3,951,522	6,753,979	(2,105,664)	4,648,315
Work in Progress	15,921,020	(15,921,020)	-	15,973,919	(15,973,919)	-
Total	426,438,785	(111,287,618)	315,151,167	396,359,759	(93,549,544)	302,810,215

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Transfers received	Transfers	Addition to Landfill asset	write-off	Depreciation	Total
Land	5,754,293	-	-	-	-	-	-	5,754,293
Buildings	16,767,596	195,126	-	-	-	-	(900,506)	16,062,216
Leased assets	81,219	415,770	-	-	-	-	(172,416)	324,573
Plant and machinery	2,452,196	-	-	-	-	-	(1,035,762)	1,416,434
Furniture and fixtures	823,310	353,055	-	-	-	-	(506,314)	670,051
Motor vehicles	5,303,885	-	-	-	-	(24,253)	(1,351,105)	3,928,527
IT equipment	757,794	529,106	-	-	-	-	(510,590)	776,310
Infrastructure	154,607,994	14,119,631	18,013,079	(18,013,077)	-	-	(7,539,707)	161,187,920
Community	102,246,674	15,948,837	60,025,449	(60,025,449)	-	-	(6,186,933)	112,008,578
Storm water infrastructure	9,366,939	-	-	-	-	-	(296,196)	9,070,743
Laandfill site asset	4,648,315	-	-	-	298,909	-	(995,702)	3,951,522
	302,810,215	31,561,525	78,038,528	(78,038,526)	298,909	(24,253)	(19,495,231)	315,151,167

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers received	Transfers	Disposal	Correction of error	Donation Received	Depreciation	Impairment loss	Work in Progress	Total
Land	5,754,293	-	-	-	-	-	-	-	-	-	5,754,293
Buildings	1,996,345	11,813,209	11,813,209	(11,813,209)	(80,072)	-	-	(681,085)	(684,471)	4,403,670	16,767,596
Leased Assets	153,873	54,944	-	-	-	-	-	(127,598)	-	-	81,219
Plant and machinery	3,307,940	4,528	-	-	(9,228)	-	-	(851,044)	-	-	2,452,196
Furniture and fixtures	850,382	252,064	-	-	(9,678)	-	10,490	(279,948)	-	-	823,310
Motor vehicles	6,495,044	482,503	-	-	(321,814)	-	-	(1,351,848)	-	-	5,303,885
IT equipment	958,947	97,232	-	-	(11,775)	-	101,436	(388,046)	-	-	757,794
Infrastructure	105,708,587	10,498,006	13,097,068	(13,097,068)	(4,934,063)	-	-	(6,368,136)	(2,553,125)	52,256,725	154,607,994
Community	72,116,844	15,363,862	-	-	(3,381,312)	-	4,373,000	(5,141,481)	-	18,915,761	102,246,674
Storm water Infrastructure	9,842,314	-	-	-	(179,178)	-	-	(296,197)	-	-	9,366,939
Landfill site asset	812,201	-	-	-	-	4,671,668	-	(835,554)	-	-	4,648,315
	207,996,770	38,566,348	24,910,277	(24,910,277)	(8,927,120)	4,671,668	4,484,926	(16,320,937)	(3,237,596)	75,576,156	302,810,215

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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3. Property, plant and equipment (continued)

Pledged as security

No assets were pledged as security in the current year.

Assets subject to finance lease (Net carrying amount)

Leasehold Assets	324,573	81,219
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Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	14,195,666	67,620,587	4,403,670	86,219,923
Additions/capital expenditure	14,119,631	15,948,847	-	30,068,478
Transferred to completed items	(18,013,077)	(60,025,449)	-	(78,038,526)
	10,302,220	23,543,985	4,403,670	38,249,875

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	18,915,761	52,256,725	4,403,670	75,576,156
Additions/capital expenditure	10,445,156	15,363,862	11,813,209	37,622,227
Impairment	(2,068,183)	-	-	(2,068,183)
Transferred to completed items	(13,097,068)	-	(11,813,209)	(24,910,277)
	14,195,666	67,620,587	4,403,670	86,219,923

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Maintenance of Buildings and Facilities	2,216,335	606,832
Maintenance of Equipment	199,767	1,488,345
Maintenance of Infrastructure assets	4,187,621	480,092
	6,603,723	2,575,269

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1,641,362	(1,396,654)	244,708	2,668,132	(1,900,604)	767,528

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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4. Intangible assets (continued)

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	767,528	(522,820)	244,708

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software, other	1,254,848	126,912	(576,155)	(38,077)	767,528

Pledged as security

No Intangible assets were pledged as security.

5. Operating lease asset (accrual)

Current assets	119,434	-
Current liabilities	-	(83,076)
	119,434	(83,076)

The municipality lease printing machines from Nashua Zululand. Lease agreements between the municipality and Nashua varies from 36 months to 60 months. All the lease premiums are paid monthly in arrears.

6. Employee benefit obligations

Defined benefit plan

The municipality's employees are members of the Natal Joint Pension Retirement Fund, including the Supernannuation Retirement and Provident Fund. These funds are multi-employer funds and allocation of any surplus/deficit to the individual municipalities cannot be determined.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(3,744,962)	(4,058,400)
Non-current liabilities	(3,633,039)	(3,946,477)
Current liabilities	(111,923)	(111,923)
	(3,744,962)	(4,058,400)

Net expense recognised in the statement of financial performance

Current service cost	585,750	599,075
Interest cost	370,089	301,866
Actuarial (gains) losses	(1,269,277)	26,775
Settlement	(111,923)	(162,776)
	(425,361)	764,940

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
6. Employee benefit obligations (continued)		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	4,058,400	3,293,460
Service Costs	585,750	514,533
Actuarial gains (losses)	(1,465,741)	26,775
Prior year adjustment	-	84,542
Finance costs	370,089	301,866
Benefits paid	(111,923)	(162,776)
	3,436,575	4,058,400

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.66 %	9.50 %
Consumer Price Index	5.25 %	7.00 %
Expected increase in salaries	6.25 %	8.00 %

Nongoma offers bonuses for every 5 years of completed service from 10 years to 45 years. Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. Nongoma advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

The methodology of setting financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2018 the duration of liabilities was 8.01 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 27 June 2019 is 8.66% per annum, and the yield on inflation-linked bonds of a similar term was about 3.24% per annum. This implies an underlying expectation of inflation of 5.25% per annum $([1 + 8.66\%] / [1 + 3.24\%] - 1)$.

It is assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 6.25% per annum. However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 2.27% per annum $([1 + 8.66\%] / [1 + 6.25\%] - 1)$.

DEMOGRAPHIC AND DECREMENT ASSUMPTION

The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows:

	2019	2018
Normal retirement age (years)*	65	65
Average retirement age (years)	63	63
Mortality	SA85-90	SA85-90

*The average retirement age for all active employees was assumed to be 63 years to implicitly allow for ill-health and early retirements.

7. VAT Receivable

	2019	2018
VAT Input receivable	2,123,800	3,358,835
VAT Output Payable	(634,612)	(600,848)
	1,489,188	2,757,987

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
8. Receivables from exchange transactions		
Prepayments	89,804	164,923
Sundry Debtors	338,657	338,657
Consumer debtors - Grazing and levies	142,372	5,381
Consumer debtors - Refuse	6,669,640	888,434
Consumer debtors - rental	36,698	48,314
Billboards	85,561	2,236
	7,362,732	1,447,945
9. Receivables from non-exchange transactions		
Consumer debtors - Rates	34,957,484	25,406,713
Consumer debtors - Fines	1,040,017	23,140
	35,997,501	25,429,853
No receivables from exchange transaction were pledged as security in current year.		
During the year, the municipality adopted a new provision for bad debts policy as approved by council. The policy was effected from current year and going forward. This resulted to change in way the provision is calculated hence we have reversal of provision expenses raised in prior years.		
10. Consumer debtors disclosure		
Gross balances		
Consumer debtors - Rates	45,181,924	39,274,944
Consumer debtors - Grazing and levies	274,320	273,636
Consumer debtors - Refuse	12,211,832	11,162,057
Consumer debtors - Rental	49,924	73,714
Consumer debtors - Billboards	160,085	152,190
Consumer debtors - Fines	2,080,377	1,704,020
	59,958,462	52,640,561
Less: Allowance for impairment		
Consumer debtors - Rates	(10,224,440)	(13,868,231)
Consumer debtors - Grazing and levies	(131,948)	(268,255)
Consumer debtors - Refuse	(5,542,192)	(10,273,623)
Consumer debtors - Rental	(13,226)	(25,400)
Consumer debtors - Billboards	(74,524)	(149,954)
Consumer debtors - Fines	(1,040,360)	(1,680,880)
	(17,026,690)	(26,266,343)
Net balance		
Consumer debtors - Rates	34,957,484	25,406,713
Consumer debtors - Grazing and levies	142,372	5,381
Consumer debtors - Refuse	6,669,640	888,434
Consumer debtors - Rental	36,698	48,314
Consumer debtors -Billboards	85,561	2,236
Consumer debtors - Fines	1,040,017	23,140
	42,931,772	26,374,218
Included in above is receivables from exchange transactions		
Refuse	1,835,249	878,222
Housing rental	29,393	48,313
	1,864,642	926,535

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
10. Consumer debtors disclosure (continued)		
Net balance	1,864,642	926,535
Rates		
Current (0 -30 days)	1,581,021	1,727,446
31 - 60 days	530,135	651,263
61 - 90 days	529,850	565,366
91 - 120 days	586,822	524,824
121 - 365 days	41,953,975	35,806,041
	45,181,803	39,274,940
Grazing & Service Levies		
121 - 365 days	274,320	273,636
Refuse		
Current (0 -30 days)	227,089	324,037
31 - 60 days	134,627	157,803
61 - 90 days	122,064	152,924
91 - 120 days	128,094	129,419
121 - 365 days	11,599,957	124,342
> 365 days	-	10,273,533
	12,211,831	11,162,058
Billboards		
Current (0 -30 days)	1,330	1,491
31 - 60 days	9,707	746
61 - 90 days	-	746
91 - 120 days	-	746
121 - 365 days	149,047	148,463
	160,084	152,192
Housing rental		
Current (0 -30 days)	19,075	13,756
31 - 60 days	1,461	6,878
61 - 90 days	1,461	6,878
91 - 120 days	1,461	5,578
121 - 365 days	25,867	40,623
	49,325	73,713
Fines		
121 - 365 days	376,700	-
> 365 days	1,704,020	1,704,020
	2,080,720	1,704,020

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10. Consumer debtors disclosure (continued)

Summary of debtors by customer classification

Consumers

Current (0 -30 days)	284,365	279,333
31 - 60 days	144,102	147,622
61 - 90 days	143,691	145,539
91 - 120 days	142,501	126,847
121 - 365 days	12,607,803	11,756,156
	13,322,462	12,455,497

Industrial/ commercial

Current (0 -30 days)	1,088,934	1,274,294
31 - 60 days	258,413	344,152
61 - 90 days	248,401	241,650
91 - 120 days	292,524	198,811
121 - 365 days	16,657,126	11,051,172
	18,545,398	13,110,079

National and provincial government

Current (0 -30 days)	366,306	441,757
31 - 60 days	240,252	290,816
61 - 90 days	228,375	304,984
91 - 120 days	248,122	298,715
121 - 365 days	22,213,005	22,367,590
	23,296,060	23,703,862

Total

Current (0 -30 days)	1,739,604	1,995,384
31 - 60 days	642,767	782,590
61 - 90 days	620,468	692,174
91 - 120 days	683,147	624,374
121 - 365 days	51,477,935	45,174,918
	55,163,921	49,269,440

Total debtor past due but not impaired

31 - 60 days	675,930	815,943
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Reconciliation of allowance for impairment

Balance at beginning of the year	24,585,462	15,090,614
Contributions to allowance	(9,377,639)	9,494,848
	15,207,823	24,585,462

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	26,994	27,221
Bank balances	7,083,481	2,015,097
Cashier Collection clearing account	28,424	21,793
	7,138,899	2,064,111

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11. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2019	June 30, 2018	June 30, 2017
First National Bank Cheque Account 531-5327-888	3,915,928	812,724	1,309,174	3,915,928	812,724	1,309,174
First National Bank Licensing Cheque Account - 622-0376-1962	120,885	77,241	26,924	135,625	90,612	31,994
First National Bank MIG Cheque Account - 622-0222-6751	25,689	20,199	5,580	25,689	20,199	5,580
First National Bank Call Account - 613-1500-0549	2,605,549	5,115	1,091	2,605,549	5,115	1,092
First National Bank Cheque Account - 623-7063-9373	80,884	910,097	2,763	80,884	910,097	2,763
First National Bank Cheque Account - 623-7306-3222	303,923	75,605	20,209	303,923	75,605	20,209
First National Bank Cheque Account - 623-7063-8573	15,882	100,745	338,589	15,882	100,745	338,589
First National Bank 7 Day Notice Deposit Account - 744-2706-5468	-	-	1,938,794	1	1	1,938,794
Total	7,068,740	2,001,726	3,643,124	7,083,481	2,015,098	3,648,195

12. Finance lease obligation

Minimum lease payments due

- within one year	214,803	123,609
- in second to fifth year inclusive	150,150	56,286
	364,953	179,895
less: future finance charges	(42,981)	(13,841)
Present value of minimum lease payments	321,972	166,054

Present value of minimum lease payments due

- within one year	184,106	112,154
- in second to fifth year inclusive	137,866	53,899
	321,972	166,053

Non-current liabilities	184,106	8,674
Current liabilities	137,865	105,078
	321,971	113,752

The municipality procured cellular and communication devices over a period of twenty four (24) months which have been classified as finance leases. Monthly installments are payable in arrears. The average interest rate implicit in respective lease contracts is approximately 10.5% (2018: 10.5%) All leases have fixed repayments and no arrangements have been entered into for contingent lease rentals.

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13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Integrated National Electricity Program	46,174	837,580
Expanded Public Works Programme	-	169,066
Osuthu Library Grant	356,800	-
Sport Grant	45,884	-
	448,858	1,006,646

14. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	6,996,546	298,910	7,295,456

Reconciliation of provisions - 2018

	Opening Balance	Additions	Reversed during the year	Bonus utilised during the year	Total
Environmental rehabilitation	6,457,410	539,136	-	-	6,996,546
Performance Bonus	454,042	160,919	(454,042)	(160,919)	-
	6,911,452	700,055	(454,042)	(160,919)	6,996,546

The provision for rehabilitation of landfill sites relate to the legal obligation to rehabilitate the landfill sites used for waste disposal in according with the National Environmental Management Act No 107 of 1998 and Environmental Conservation Act No 73 of 1989. It is calculated as the present value of the expenditure expected to be required to settle the future obligation to rehabilitate the landfill sites.

Environmental rehabilitation provision

The provision for rehabilitation for landfill site represents management's best estimate of the municipality's liability relating to closure and rehabilitation of the landfill site. Decommissioning costs includes costs associated with decommissioning end-use infrastructure, compacting works, capping, top-up soling and vegetation as well as construction of stormwater control systems. The discount rate used for the present value calculation was based on GOVI long bond and amounts to 9.35%.

Performance Bonus

Performance bonuses for Section 57 employees in accordance with Regulation 8 of the Local Government: Municipal Performance Management Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006. Overall performance and assessment ratings for respective employees shall be evaluated by the municipality using their applicable key performance indicators (KPIs). Performance bonuses relating to the financial year are payable subsequent to year end after the annual report is tabled and adopted by Council and Section 57 employees' annual performance evaluated in accordance with Regulation 23 of the Local Government: Municipal Performance Management Regulations.

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Figures in Rand	2019	2018
15. Payables from exchange transactions		
Trade payables	20,598,071	2,815,807
Deposits received	302,473	290,320
Accruals Liability	2,442,304	4,662,015
Provision for leave pay	8,533,436	7,699,556
Skills Development Levy liability	53,944	-
Garnish payable	71,651	-
Retention Liability	2,964,226	387,102
Bonus Provision	-	160,919
PAYE Deductions	1,064,454	-
Deposit on sale of land	419,149	419,149
Payable - Indigo	367,094	4,374
Payable - Unions	15,171	-
Salary Clearing Account	1,155,033	4,021,544
Pension deductions Liability	1,992,138	376,337
Unemployment Insurance Fund	76,876	-
Unallocated Deposits	949,594	954,366
Medical aid payable	519,039	-
	41,524,653	21,791,489
Municipal employees receive a 13th cheque in November every year. Directors, interns and other section 56 managers do not qualify for the 13th cheque and they are excluded in the calculation of provision for 13th cheque disclosed above. The provision for 13th cheque is made up of 7 month from 01 December 2018 to 30 June 2019 which has already accrued to the employees, and a provision for period starting 01 July 2019 to 30 November 2019.		
16. Service charges		
Refuse removal	1,881,275	1,824,174
17. Rental of facilities and equipment		
Premises		
Premises	95,004	76,368
Facilities and equipment		
Rental of facilities	90,848	27,780
Rental of equipment	10,571	88,096
	101,419	115,876
	196,423	192,244
18. Fines, Penalties and Forfeits		
Fines, Penalties and Forfeits	434,530	393,044
19. Licences and permits (exchange)		
Road and Transport	926,445	902,031
20. Licences and permits (non-exchange)		
21. Lease rentals on operating lease		
Equipment		
Contractual amounts	6,038,238	4,476,536

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Figures in Rand	2019	2018
22. Investment revenue		
Interest revenue		
Bank	1,580,450	1,560,082
23. Property rates		
Rates received		
Residential	910,037	858,540
Commercial	9,597,643	8,934,401
State	11,328,336	10,786,212
Public Service Infrastructure	22	29
Vacant Land	286,638	269,304
	22,122,676	20,848,486
Valuations		
Residential	102,549,000	112,459,000
Commercial	400,904,000	278,527,000
Special	703,628,000	703,628,000
Public Infrastructure	12,000	12,000
Vacant Land	5,384,000	5,539,000
Rural Community Land	400,904,000	400,904,000
	1,613,381,000	1,501,069,000

General valuations on land and buildings are performed every 4 years in terms of of the Municipal Property Rates Act. The last general valuation came into effect on 1 July 2013. The municipality has not perform the general valuation and the Council has requested extention from the MEC.

The supplementary valuation roll was performed on annual basis to take into account building additions, changes, subdivisions and consolidations.

Property rates are levied on a monthly basis.

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Figures in Rand	2019	2018
24. Government grants and subsidies		
Operating grants		
Equitable share	136,391,000	128,137,000
Department of Transport Grant	431,984	432,575
Financial Management Grant	1,970,000	1,900,000
LG SETA	139,049	139,571
Cyber Cadet Library Grant	197,000	188,000
Provincial Grant - Libraries	838,000	583,000
Expanded Public Works Programme	1,784,066	1,037,084
Sport Grant	4,116	-
Osuthu Library Grant	199,200	-
	141,954,415	132,417,230
Capital grants		
Integrated National Electrification	43,991	1,748,883
Municipal Infrastructure Grant	31,286,000	43,378,000
	31,329,991	45,126,883
	173,284,406	177,544,113
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	36,849,415	49,407,113
Unconditional grants received	136,391,000	128,137,000
	173,240,415	177,544,113
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Extended Public Work Program Grant		
Balance unspent at beginning of year	169,066	167,150
Current-year receipts	1,615,000	1,039,000
Conditions met - transferred to revenue	(1,784,066)	(1,037,084)
	-	169,066
Conditions still to be met - remain liabilities (see note 13).		
Library Grant		
Current-year receipts	838,000	583,000
Conditions met - transferred to revenue	(838,000)	(583,000)
	-	-
FMG Grant		
Current-year receipts	1,970,000	1,900,000
Conditions met - transferred to revenue	(1,970,000)	(1,900,000)
	-	-
Municipal Infrastructure Grant		

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
24. Government grants and subsidies (continued)		
Current-year receipts	31,286,000	43,378,000
Conditions met - transferred to revenue	(31,286,000)	(43,378,000)
	-	-
Cyber Cadet Grant		
Current-year receipts	197,000	188,000
Conditions met - transferred to revenue	(197,000)	(188,000)
	-	-
OSUTHU MODULAR LIBRARY		
Current-year receipts	556,000	-
Conditions met - transferred to revenue	(199,200)	-
	356,800	-
Conditions still to be met - remain liabilities (see note 13).		
Sport Grant		
Current-year receipts	50,000	-
Conditions met - transferred to revenue	(4,116)	-
	45,884	-
Conditions still to be met - remain liabilities (see note 13).		

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Figures in Rand	2019	2018
25. Employee related costs		
Basic	60,046,455	54,007,264
Bonus	6,438,610	4,650,714
Medical aid - company contributions	3,293,008	3,164,088
UIF	488,062	456,978
Leave pay provision charge	1,808,118	1,688,853
Standby Allowance	-	150
Cellphone and telephone allowance	273,500	-
Defined contribution plans	12,197,582	11,271,482
Travel, motor car, accommodation, subsistence and other allowances	5,725,064	3,986,772
Overtime payments	2,656,131	2,300,944
Long-service awards	710,161	444,561
Acting allowances	556,197	-
Housing benefits and allowances	316,273	404,097
Bargain Council	33,731	28,113
	94,542,892	82,404,016
Remuneration of municipal manager		
Annual Remuneration	506,647	512,251
Travel Allowances	321,250	272,176
Performance Bonuses	-	52,287
Contributions to UIF, Medical and Pension Funds	1,487	1,338
Skills Development Levy and Bargain Council	8,108	8,574
Leave	-	117,438
Back Pay	45,970	-
Cellphone allowances	2,500	-
	885,962	964,064
Remuneration of chief finance officer		
Annual Remuneration	557,314	559,788
Travel allowances	299,105	221,444
Performance Bonuses	-	44,630
Contributions to UIF, Medical and Pension Funds	1,785	1,636
Skills Development Levy and Bargain Council	8,110	11,397
Back Pay	24,289	-
	890,603	838,895
Remuneration of executive directors- Technical		
Annual Remuneration	567,557	540,266
Travel allowances	319,474	231,542
Performance Bonuses	-	54,303
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Skills Development Levy and Bargain Council	8,262	6,461
Back Pay	73,620	-
	970,698	834,357
Remuneration of executive directors- Social Services		
Annual Remuneration	750,475	726,042
Travel allowances	267,848	267,848
Back pay	159,418	-
Contributions to UIF, Medical and Pension Funds	49,437	48,753

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
25. Employee related costs (continued)		
Skills Development Levy and Bargain Council	11,938	10,087
	1,239,116	1,052,730
Remuneration of executive directors - Planning		
Annual Remuneration	525,967	880,350
Travel allowance	82,583	133,685
Performance Bonuses	-	104,017
Contributions to UIF, Medical and Pension Funds	1,190	1,785
Back Pay	93,996	24,537
Skills Development Levy and Bargain Council	8,839	11,901
Leave Pay	184,883	-
	897,458	1,156,275
Corporate and human resources (corporate services)		
Annual Remuneration	595,659	276,473
Travel allowance	328,278	116,923
Performance Bonuses	-	9,699
Contributions to UIF, Medical and Pension Funds	1,785	892
Back Pay	129,515	8,449
Skills Development Levy and Bargain Council	10,558	4,439
Leave paid	-	(19,450)
Cellphone and acting allowance	71,720	-
	1,137,515	397,425
26. Remuneration of councillors		
Mayor	887,356	860,668
Deputy Mayor	706,007	734,943
Speaker	440,084	919,074
Councillors	10,244,006	10,111,693
Councillors' pension contribution	1,254,227	1,182,778
	13,531,680	13,809,156
In-kind benefits		
The Mayor, Deputy Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.		
The Mayor has five full-time bodyguards. The Deputy Mayor has three full-time bodyguards.		
The Speaker has four full time bodyguards.		
27. Depreciation and amortisation		
Property, plant and equipment	19,495,136	16,325,775
Intangible assets	522,821	576,155
	20,017,957	16,901,930

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
28. Impairment of assets		
Impairments		
Property, plant and equipment	-	4,457,356
29. Finance costs		
Other interest paid	412,509	348,200
Total interest expenses arise from provision for long service awards calculations.		
30. Debt impairment		
Traffic Fines	(640,344)	269,605
Bad debts written off	(8,598,984)	9,494,847
	(9,239,328)	9,764,452
31. Contracted services		
Outsourced Services		
Administrative and Support Staff	96,843	-
Burial Services	557,820	595,075
Business and Advisory	455,087	-
Catering Services	929,647	1,426,858
Cleaning Services	4,343	17,893
Professional Staff	1,024,180	43,762
Refuse Removal	4,023,183	1,694,749
Security Services	71,256	26,290
Transport Services	485,690	453,700
Consultants and Professional Services		
Business and Advisory	9,555,655	8,023,217
LED Projects	6,420,924	-
Contractors		
Artists and Performers	80,199	-
Catering Services	1,140,814	1,662,833
Event Promoters	108,050	1,424,545
First Aid	29,059	-
Fire Services	29,951	-
Interior Decorator	139,550	231,113
Maintenance of Buildings and Facilities	2,216,335	606,832
Maintenance of Equipment	199,767	1,488,345
Maintenance of Unspecified Assets	4,187,621	480,092
Pest Control and Fumigation	15,730	11,450
Transportation	178,968	571,624
Safeguard and Security	3,662,634	5,554,241
Stage and Sound Crew	208,343	887,309
	35,821,649	25,199,928

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Figures in Rand	2019	2018
32. General expenses		
Accounting fees	1,853,841	876,556
Advertising	1,986,555	697,715
Auditors remuneration	361,933	1,401,274
Bank charges	75,888	112,013
Cleaning	843,800	-
Consulting and professional fees	195,250	-
Consumables	2,288,180	5,744,038
Hire	4,273,263	2,940,523
Insurance	710,479	687,729
IT expenses	529,846	684,538
Motor vehicle expenses	37,926	38,787
Fuel and oil	1,552,241	1,088,797
Postage and courier	459	199,691
Printing and stationery	1,735,288	1,159,481
Remuneration of ward committees	1,611,195	1,158,000
Subscriptions and membership fees	3,145,635	2,310,532
Telephone and fax	1,896,237	2,734,481
Skills Development Levy	724,998	647,793
Travel - local	3,427,408	5,219,691
Rewards incentives	1,350	70,377
Uniforms and protective clothing	399,452	558,563
Employee Bursaries	387,014	180,221
Communication Radio and TV Transformer	1,300,733	1,818,412
Indigent relief	453,944	2,051,707
Learnership and Internship	-	436,720
Municipal Services	799	-
Registration Fees Seminars and Conferences	2,500	217,383
Other expenses	1,038,026	811,857
	30,834,240	33,846,879
33. Cash generated from operations		
Surplus	13,292,477	10,975,922
Adjustments for:		
Depreciation and amortisation	20,017,957	16,901,930
Gain on sale of assets and liabilities	24,174	8,513,103
Actuarial gain or loss	(1,269,277)	522,725
Finance costs - Provisions	385,506	242,490
Donation Received	-	(4,484,929)
Impairment deficit	-	4,457,356
Debt impairment	(9,239,328)	9,764,452
Movements in operating lease assets and accruals	(202,510)	(606,988)
Movements in retirement benefit assets and liabilities	(313,438)	(764,940)
13 th Cheque provision and accrued expense	2,442,304	-
Movement in leave pay provision	(1,003,843)	(759,171)
Other non-cash items	(52,559)	-
Changes in working capital:		
Receivables from exchange transactions	(5,914,787)	(740,695)
Consumer debtors	-	18,399,114
Other receivables from non-exchange transactions	(1,328,320)	(26,226,828)
Payables from exchange transactions	19,733,164	2,631,199
VAT	414,362	(2,417,241)
Unspent conditional grants and receipts	(557,788)	832,008
	36,428,094	37,239,507

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Figures in Rand	2019	2018
34. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	10,548,805	5,680,706
Total capital commitments		
Already contracted for but not provided for	10,548,805	5,680,706
Authorised operational expenditure		
Approved and contracted for		
• Operational Commitment	9,352,999	695,450
• Operating Lease commitments	7,201,363	11,450,520
	16,554,362	12,145,970
Total operational commitments		
Already contracted and provided for	16,554,362	12,145,970
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	2,936,683	3,519,839
- in second to fifth year inclusive	744,841	3,681,524
	3,681,524	7,201,363

Operating lease payments represent rentals payable by the municipality for photocopying machines from Nashua Zululand Pty Ltd. The average term of the operating lease contract is 72 months with an option for renewal at the end of the term. No contingent rent is payable.

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2019

2018

35. Contingencies

Nongoma Local Municipality vs KPMG (Case Number Nong33919.11)

The estimated financial exposure to the municipality is R90,000.00. The estimated cost and disbursements will depend on how long the litigation for the recovery of the municipality against KPMG.

Nongoma Local Municipality vs Inhlangezoko Management services (Case Number Nong33919.6)

The estimated financial exposure to the municipality is R50,000.00 of legal cost plus additional counsel' fees should the matter proceed to High court. Based on the previous comment the High court gave advise on the prospects of success and the matter has not proceeded to litigation therefore, no further cost or disbursement are likely to be incurred.

Nongoma Local municipality vs Low income Housing project (Case Number Nong33919.9)

There is no financial exposure regarding this matter. It was concluded that the matter will be dealt with in house by the municipality.

Nongoma Local Municipality vs Telkom SA SOS Limited.

The matter relates to a Tender disputes. An amount of R237,487.56 had been paid to date and future financial exposure is estimated to be R250,000.00. The matter is pending negotiations.

Nongoma Local Municipality vs Mageba Consulting Engineers.

The matter relates to Tender dispute. An amount of R2,218 510.50 had been paid to date and future financial exposure is estimated to be R100,000.00. The matter is pending.

Nongoma Local Municipality vs SL Buthelezi.

The matter relates to delictual claim. An amount paid of R2,400 000.00 had been paid to date and future financial exposure is estimated to be R250,000.00. The matter is awaiting SCA's decision on similar matter.

Nongoma Local Municipality vs Mncwango/ S Qwabe

The matter relates to delictual claim. An amount paid of R150, 000.00 had been paid to date and future financial exposure is estimated to be R80,000.00. The matter is still pending

Nongoma Local Municipality vs Plaktan Trading t/a Isiphiwo Trading

The matter relates to Tender dispute. An amount of R2,507 658.00 had been paid to date and future financial exposure is estimated to be R100,000.00. The matter is pending

Nongoma Local Municipality vs Conveyancing Files (11)

The matter relates to a claim on transfer of sold property. No amount has been paid yet however, estimated future financial exposure is R330,000.00. The files pending and awaiting mother's title deeds.

Nongoma Local Municipality vs Dennis Phewa

The matter relates to tender disputes. No amount has been paid yet however, estimated future financial exposure is R100,000.00. The matter is still pending.

1. The investigation into alleged irregularities within Nongoma Local Municipality

MEC (COGTA) appointed a service provider to conduct a forensic investigation on various allegations leveled against the municipality. The forensic investigation was completed and the report was presented to Council by COGTA. The Council is implementing the recommendations of the report and taking actions against the individuals and service providers that were implicated.

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35. Contingencies (continued)

2. Investigation into prior years Irregular, Unauthorized, Fruitless and Wasteful Expenditure

There were unauthorised, irregular, fruitless and wasteful expenditure for prior years that were disclosed in the annual financial statements and the Municipal Council took a decision that all the irregular, unauthorised, fruitless and wasteful expenditure be investigated to determine whether any official/supplier was liable for losses incurred as a result of the unauthorised, irregular, fruitless and wasteful expenditure. An investigation was completed and consequence management is underway against any officials who caused or permitted the incurrence of unauthorised, irregular, fruitless and wasteful expenditure.

36. Related parties

Refer to employee related cost for remuneration of directors and key management disclosure.

37. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2018

	Note	As previously reported	Correction of error	Provision for bad debts	Re-classification	Restated
Provision for bad debts Liability		(17,147,188)	-	(7,438,274)	-	(24,585,462)
Consumer debtors		34,446,932	-	-	(34,446,932)	-
Receivables from exchange transaction		-	-	-	1,447,945	1,447,945
Receivables from non-exchange transactions		656,664	-	-	24,773,189	25,429,853
Property Plant and Equipment		361,846,723	(46,695,556)	-	-	315,151,167
VAT Receivable		2,807,414	(49,427)	-	-	2,757,987
Payables from exchange transactions		(16,787,129)	(5,004,360)	-	-	(21,791,489)
Operating Lease smoothing		(698,447)	615,371	-	-	(83,076)
Landfill site provision		(7,157,465)	160,919	-	-	(6,996,546)
Employee benefits obligations		(3,313,710)	(632,767)	-	-	(3,946,477)
Retained Surplus		(373,452,660)	72,224,934	-	-	(301,227,726)
Current portion- Employee benefits obligation		(137,424)	25,501	-	-	(111,923)
Unspent conditional Grant		(1,006,646)	557,788	-	-	(448,858)
Cash and Cash equivalents		2,141,972	-	-	(77,861)	2,064,111
		(17,800,964)	21,202,403	(7,438,274)	(8,303,659)	(12,340,494)

Statement of financial performance

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(Registration number KZN265)

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018			
37. Prior-year adjustments (continued)					
2018					
	Note	As previously reported	Correction of error	Re-classification	Restated
Provision for bad debts expenses		2,326,178	7,438,274	-	9,764,452
Operating lease expense		5,900,950	(615,371)	(809,043)	4,476,536
Contracted services		24,615,248	-	584,680	25,199,928
Employee related costs		84,112,083	-	(1,708,067)	82,404,016
Operating Revenue		(15,398,728)	-	15,398,728	-
Sale of goods		-	-	(310,633)	(310,633)
Actuarial Loss		-	522,724	-	522,724
Donation Received		-	(827,631)	(3,657,298)	(4,484,929)
Fines Penalties and Forfeits		(294,170)	-	(98,874)	(393,044)
Interest received-bank and investment		(1,556,331)	-	(3,751)	(1,560,082)
Licence and Permits		(874,886)	-	(27,145)	(902,031)
Grant and subsidies		(189,526,263)	11,982,150	-	(177,544,113)
General expenditure		34,678,429	(338,311)	(493,239)	33,846,879
Depreciation and amortisation		14,655,818	2,246,112	-	16,901,930
Surplus for the year		(41,361,672)	20,407,947	8,875,358	(12,078,367)

Provision for land fill site

Prior year provision for landfill site was incorrectly recorded including provision for bonus. Further there was a resolution not to pay bonus to municipal employees, however by error an amount of **R 160 919** was raised and processed. This have been adjusted and prior year figures restated.

Employee Benefits Obligations

The amount disclosed in the annual financial statements was not agreeing to the expert report provided and journals have been processed to account for such misstatement. A total of **R632,797** has been processed to correct the error.

Donation Received - Mona Sport Field

Community assets donated from Zululand district were incorrectly accounted for at carrying amount instead of at fair value. The sport field was re-measured to fair value and prior year figures have been adjusted accordingly.

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37. Prior-year adjustments (continued)

Revenue from exchange and non exchange transactions

An amount of **R 10,409,445** relating to trade and other payables was incorrectly presented as operating revenue in 2017/18 financial year. This has been adjusted and prior year amounts restated. accordingly.

Mona Sport field received from Zululand district was incorrectly presented as revenue from exchange transactions. This should have been disclosed as income from non-exchange transaction. This has been reclassified accordingly for fair presentation. Further an error occurred where this donation was accounted for at carrying amount of the assets in the donor's books instead of being accounted for at fair value as per requirements of GRAP standard. The sportfeild has been re-measured and prior year amount adjusted accordingly.

A total amount of R **96,770** relating to licenses and permits was incorrectly included as operating revenue from exchange transaction. this has been transferred to the correct classification.

An amount of **R454,042** relating to employee related costs was incorrectly classified as revenue from operations in 2017/18 financial year. Reclassification was made and prior year figures restated.

School Patrol Grant of **R 432,575** was incorrectly presented as revenue from exchange transactions under operating revenue. This has been reclassified to grants and subsidies in current year.

During the year, items such as sale of business plans, tender documents and clearing certificates has been reclassified to its separate line items and prior period amounts were restated accordingly. A total of **R 310,633** has been reclassified from operating revenue.

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37. Prior-year adjustments (continued)

Receivables from exchange and non- exchange transactions

Receivables were previously disclosed as consumer debtors, however they have been reclassified to two categories namely receivables from exchange and non-exchange transactions.

Provision for bad debt disclosed in prior year was understated according to the calculation policy used during that financial year. Provision for bad debts have been corrected and prior period amount restated accordingly. A total of **R7,438,274** has been adjusted accordingly.

In prior year financial statement, there was a debit balance called "**Debit Orders**" which was part of the receivables for the year. Upon further investigations, it was discovered that some invoices for telephone and communication were not cleared against this debit orders. An adjustment of **R 1,106,555** has been made to account for such omission and prior period receivables amount together with telephone and communication expenses account were restated accordingly.

Payables from Exchange transactions

Payables and accruals increased due to the fact that items such as retention - **R 1,299,372**, Deposit on sale of land - **R419,149**, payroll accruals - **R 4,021,544** and actual accruals - **R4,662,015** were disclosed as operating revenue resulting to misstatement of revenue and payables disclosed in prior year. The error was corrected and prior year amounts restated accordingly to account for these changes.

In addition, Retention amount from prior year has been adjusted by a total of **R800,237.16** which was incorrectly accounted for in prior year.

Operating lease smoothing liability

As per calculation schedule performed last year, the approach used to perform the lease smoothing calculations were not accurate and this have been revised to correct the misstatement.

Hall Hires expenditure was previously classified as leased assets in prior year, this has been changed and all hall hires have been classified as general expenses in current year.

In prior year, unsupported journals were processed against operating lease expense, This has been disregarded and prior period amounts have been restated accordingly.

Property Plant and equipment

During the current financial year the municipality performed a complete review of Retention's, Donated Assets and Work in Progress. Work in progress was overstated by a total amount of **R 46,695,094** and the misstatement has been adjusted accordingly.

Several projects completed in prior years were not capitalised. The total amount of **R 5,619,972.27** was capitalised and depreciation processed accordingly.

Donations received in terms of furniture and office equipment were not accounted for and an adjustment of **R 8,452.39** had been effected to correct this omission. Computer equipment donated with a fair value of **R 90,541,69** has been recorded to account for the prior year omission identified.

Completed projects relating to community assets worth **R4,675,920** have been capitalised, accumulated depreciation has been restated by total amount of **R 230,062.54**.

In previous periods, Integrated national Electrification Program Projects were capitalised by the municipality which is a non-compliance with requirements of GRAP standard. This has been corrected and prior year figures have been adjusted accordingly. A total of **R 36,194,226** has been processed against retained surplus.

Due to the misstatements above, depreciation has been adjusted by a total amount of **R 1,573,275** in prior year.

Expenditure

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37. Prior-year adjustments (continued)

During the year, it was discovered that movements in landfill site provision has been expensed instead of capitalised to the landfill site assets. An adjustment was made and total of **R 338,311** was reversed and capitalised accordingly to correct the error.

Contracted services has been restated by an amount of **R 493,231** relating to repairs and maintenance which was incorrectly classified as general expenses.

38. Comparative figures

Certain comparative figures have been reclassified due to adoption of mSCOA and change in chart of account version from 6.1 to 6.2 version.

39. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

At June 30, 2019

	2019	2018
Payables from exchange transactions	(41,524,653)	(21,791,489)
Employee obligation	(111,923)	(111,923)
Unspent conditional Grant	(448,858)	(1,006,646)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Trade Receivables from Exchange transaction	7,362,732	144,945
Trade Receivables from Non Exchange transactions	35,997,501	25,429,853
Cash and cash Equivalents	7,138,899	2,064,111
VAT Receivables	1,489,188	2,757,987

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

40. Going concern

We draw attention to the fact that at June 30, 2019, the municipality had an accumulated surplus (deficit) of R 314,167,732 and that the municipality's total assets exceed its liabilities by R 314,167,732.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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Figures in Rand	2019	2018
40. Going concern (continued)		
The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the municipality will continue to get funds through government grants and cashflows from services rendered.		
41. Events after the reporting date		
The municipality is not aware of any condition or event subsequent to year end that has material impact on the financial information disclosed herewith.		
42. Unauthorised expenditure		
Opening Balance	51,689,808	51,689,808
Current year Movement	38,776,245	35,627,554
Unauthorised amounts written-off	(4,742,732)	(35,627,554)
	85,723,321	51,689,808
43. Fruitless and wasteful expenditure		
Opening Balance	991,806	991,806
Current year Movement	130,334	124,598
Amount written -off	(130,334)	(124,598)
	991,806	991,806
Fruitless and wasteful expenditure is mainly due to late payment of suppliers and amounts owed to SARs.		
44. Irregular expenditure		
Opening balance	63,256,865	63,256,865
Add: Irregular Expenditure - current year	19,366,260	33,969,165
Less: Amounts written-off	(19,366,260)	(33,969,165)
	63,256,865	63,256,865
Prior year irregular expenditure disclosed in the final set of annual financial statements was understated. Prior year figures have been restated to correct the error.		
45. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	-	707,250
Amount paid - current year	-	(707,250)
	-	-
Skills Development Levy		
Current year subscription	724,998	647,793
Amount paid - current year	(671,054)	(647,793)
	53,944	-
Audit fees		
Current year subscription	1,981,439	2,240,025
Amount paid - current year	(1,981,439)	(2,240,025)
	-	-

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45. Additional disclosure in terms of Municipal Finance Management Act (continued)		
PAYE and UIF		
Current year subscription	13,879,623	12,409,608
Amount paid - current year	(12,733,709)	(12,409,608)
	1,145,914	-
Pension and Medical Aid Deductions		
Opening balance	376,337	-
Current year subscription	16,744,817	15,618,348
Amount paid - current year	(14,609,977)	(15,242,011)
	2,511,177	376,337
VAT		
VAT receivable	2,123,801	3,358,784
VAT payable	(634,613)	(600,848)
	1,489,188	2,757,936

VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the year.

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Good and services procured during the financial year under review and the process followed in procuring those goods and services deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviations from municipality supply chain management regulations for the year ended 30 June 2019 amounted to **R1 916 422.86 (2018:R1 324 811)**

47. Budget differences

Material differences between budget and actual amounts

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Notes to the Annual Financial Statements

Figures in Rand

2019

2018

47. Budget differences (continued)

In this disclosure, materiality is assumed to be all the variance which are 10% or more. Explanations of identified differences are as follows:

1. Income

Items such as interest from bank investments, license and permits, sale of Goods and services as well as rental of facilities and equipment were under budgeted for. the municipality experienced less transaction than anticipated for hence we see lower income collected in these categories than anticipated.

2. Property rates was less than budgeted amount due to the fact that customers are finding it difficult to settle their accounts.

3. Remuneration of Councilors salaries was over budgeted for and the municipality experienced less salary payments than anticipated.

4. Employee related costs were high due to new appointments as well as annual increase which were not effected in the original and adjusted budget.

5. General expenses, contracted services, and finance leases are due under budget. The municipality also did not budget for items such as impairment and bad debts written of hence we have high unfavourable variance in these categories.

Actual Receivables from exchange and non exchange transactions - Amount is higher than Budgeted amount because of under budget by the municipality.

Property Plant and Equipment - Amount is lower than budget due to less capital projects implemented in current year than budgeted for.

Differences between budget and actual amounts basis of preparation and presentation

The budget and the accounting bases differ. The annual financial statements for the whole-of-government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The annual financial statements differ from the budget, which is approved on the cash basis and exclude non cash items